

Information Item

Fiscal Policy and Analysis Committee

The 2001-02 State Budget for Higher Education

This report is the staff's preliminary analysis of the budget for the State of California for the 2001-02 fiscal year. The report presents a summary of the Governor's education initiatives for the fiscal year, along with background and details on other major State program initiatives and general information on State finances. The report notes that, while overall State spending has increased in 2001-02, reductions in available revenues have tightened this budget and will likely mean spending reductions in next year's State Budget.

Presenter: Kevin G. Woolfork.



The 2001-02 State Budget for Higher Education

ON THURSDAY, JULY 26, 2001, Governor Gray Davis signed the 2001 Budget Act for the State of California (SB 739, Peace, Chapter 106, Statutes of 2001). While being the largest budget in the State's history, allocating more than \$103 billion in total funds, the 2001-02 budget also contains some expenditure reductions unanticipated just months earlier. Year-to-year State General Fund spending is reduced by \$1.3 billion (1.7 percent) from 2000-01 levels and is more than \$4 billion lower than initially proposed by the Governor in January, 2001.

The Governor vetoed \$554 million from the budget before signing it into law. \$499 million (90 percent) of his vetoes were of State General Fund expenditures that had been approved by the Legislature. Most of these vetoes were concentrated in education, with \$178 million cut from higher education and \$130 million vetoed from the K-12 education budget. The Governor reduced health and human services spending by slightly over \$100 million.

With the California economy slowing, the final budget reflects major across-the-board reductions from proposed spending levels this past January. Staff notes from the outset that even with these reductions, most State spending categories are slated to allocate more money in 2001-02 than in 2000-01, only the rate of increase has been scaled back. The one major exception to this scaling back is funding for K-12 education, which is scheduled to grow significantly this year. The budget also provides increased funding for rural law enforcement activities, expanded access to selected health programs, and targeted tax reductions.

**All state
program
expenditures
by fund source**

The three-part display (Display 1) on the following page show budget expenditures in the 2001-02 State Budget. The top of the display shows State program categories' expenditure of State General Funds. The second section provides the Department of Finance's late-July, 2001 estimates of revenue sources for the State General Fund, selected Special Funds, and Bond Funds. The third, bottom part of the display shows overall 2001-02 State General Fund expenditure amounts, with proportions of total expenditures for each program.

General Fund expenditure levels for higher education (shown in bold), are budgeted to increase by \$560 million in 2001-02, a 6 percent increase over the prior year. K-12 General Funds will increase nearly by \$2.5 billion (8.3 percent) to total \$32.4 billion.

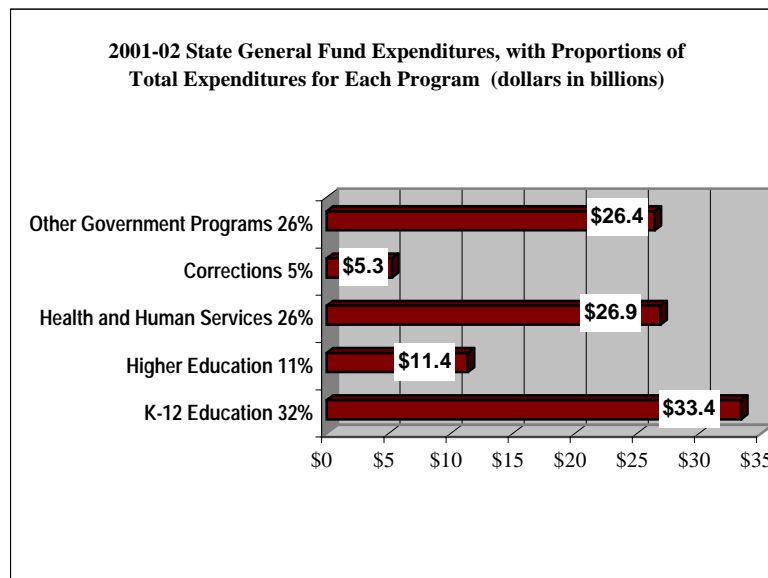
DISPLAY 1 Estimated State General Fund Expenditures, by Budget Categories (dollars in millions)

<u>Budget Category</u>	<u>2000-01</u>	<u>2001-02</u>	<u>\$ change</u>	<u>% change</u>
Legislative, Judicial, Executive	\$2,670	\$2,618	-\$52	-1.9%
State and Consumer Services	600	580	-\$20	-3.3
Business, Transportation & Housing	2,577	696	-\$1,881	-73.0
Technology, Trade, and Commerce	149	82	-\$67	-45.0
Resources	2,496	1,272	-\$1,224	-49.0
Environmental Protection	492	411	-\$81	-16.5
Health and Human Services	20,126	21,898	\$1,772	8.8
Youth and Adult Correctional	5,179	5,242	\$63	1.2
K-12 Education	29,950	32,437	\$2,487	8.3
Higher Education	\$9,341	\$9,901	\$560	6.0%
General Government	6,507	3,626	-\$2,881	-44.3
<i>Total</i>	<i>\$80,087</i>	<i>\$78,763</i>	<i>-\$1,324</i>	<i>-1.7%</i>

2001-02 Estimated State General Fund Budget Summary (dollars in millions)

<u>Resource Classification</u>	<u>2000-01</u>	<u>2001-02</u>	<u>\$ change</u>	<u>% change</u>
Prior Year Balance (carryover)	\$9,139	\$7,055	-\$2,084	-22.8%
Revenues and Transfers	78,003	75,105	-2,898	-3.7
Total Resources Available	87,142	82,160	-4,982	-5.7
Expenditures	80,087	78,763	-1,324	-1.7
Fund Balance	7,055	3,397	-3,658	-51.8
Budget Reserves:				
Reserve for Liquidation of Encumbrances	701	701	--	--
Set aside for Litigation	7	100	--	--
Special Fund for Economic Uncertainties	6,347	2,596	-3,751	-59.1

Sources: CPEC staff analysis of Governor's 2001-02 State Budget documents, Senate Bill 739 (Peace) -- the 2001-02 Budget, Legislative Analyst's Office "Major Features of the 2001 California Budget."



**State General
Fund spending
up 88 percent
over seven-year
period**

The one-year decline in overall State General Fund spending in the 2001-02 budget is the first since the recession years of 1992-93 to 1993-94. Still, General Fund growth during the seven-year economic recovery has been significant, increasing by \$37 billion – percent 88 – since 1994-95. General Fund expenditures had grown by only 83 percent over the 11 fiscal years preceding 1994-95.

The Governor considered several pieces of related legislation designed to implement components of the budget. Those “budget trailer bills” that the Governor approved are listed below in Display 2.

DISPLAY 2 Approved 2001-02 Budget-Related Legislation

Bill	Author	Subject
ACA 4	Dutra	Transportation financing: dedication of state sales tax on gasoline.
AB 426	Cardoza	Tax relief (agriculture, seniors, sales tax trigger).
AB 427	Hertzberg	Foster Care.
AB 429	Aroner	Social services omnibus bill.
AB 430	Cardenas	Health omnibus bill.
AB 434	Keeley	Hatton Canyon acquisition; surplus property.
AB 435	Budget Committee	Resources: Department of Fish and Game automated licensing.
AB 438	Budget Committee	Transportation Congestion Relief Program refinancing; defer sales tax shift.
AB 440	Cardoza	Appropriation for minimum high tech. equipment grants and seniors' tax relief.
AB 441	Simitian	K-12 school district equalization.
AB 443	Aanestad	Rural and small county law enforcement grants.
AB 445	Cardenas	School facilities fees.
SB 294	Scott	Firearms Dealer Inspections, Victims Recovery Resource and Treatment Centers.
SB 347	O'Connell	Education omnibus bill.
SB 742	Escutia	General Government omnibus.
SB 982	O'Connell	Special education mandates settlement.

Source: Legislative Analyst's Office.

**Major State
funding priorities
for 2001-02**

Based on commitments of new funds, the 2001-02 State Budget has one major funding priority – K-12 Education – with higher education a close second. The K-12 and higher education budget are described below.

*2001-02 budget
for education*

Both K-12 education and higher education fare well in the new budget, particularly K-12. In the K-12 budget, full funding is provided for both inflation and projected enrollment growth. Major K-12 provisions include: low-performing schools, child care, before/after school programs, and revenue limit equalization. These programs are discussed below.

Total 2001-02 Proposition 98 spending for K-12 and the community colleges is \$45.4 billion, an increase of \$2.5 billion (6 percent) over 2000-01. The Department of Finance estimates that per pupil K-12 spending will increase by \$324 (5 percent) from \$6,678 in 2000-01 to \$7,002 in 2001-02. Display 3 summarizes Prop 98 expenditures for the 2000-01 (past) and 2001-02 (current) fiscal years for K-12, the community colleges, and other affected agencies.

The Proposition 98 dollar totals shown here for both years reflect “over-appropriations” of the Prop 98 guaranteed minimum funding. That is, the Legislature has chosen to appropriate a higher level of funds to Prop 98 than the minimum funding guarantee calls for. In 1999-00 this over-appropriation was \$1.5 billion. With revisions adopted in the budget, the Legislature ended up appropriating \$415 million more in 2000-01 than the minimum funding level. For fiscal year 2001-02, the Prop 98 over-appropriation is estimated to be \$4 billion.

DISPLAY 3 Proposition 98 Budget Summary for 2000-01 and 2001-02 (dollars in billions)

<u>K-12 Proposition 98</u>	<u>2000-01*</u>	<u>2001-02*</u>
General Fund	\$27.3	\$28.8
Local property taxes	<u>10.8</u>	<u>11.7</u>
Subtotals, K-12	\$38.1	\$40.5
<u>California Community Colleges</u>		
General Fund	\$2.7	\$2.7
Local property taxes	<u>1.7</u>	<u>1.8</u>
Subtotals, Community Colleges	\$4.4	\$4.5
<u>Other</u>		
Other agencies	\$0.1	\$0.1
Loan repayment	<u>0.4</u>	<u>0.4</u>
<i>Totals, Proposition 98</i>	\$42.9	\$45.5
<u>Prop 98 Fund Sources</u>		
<i>General Fund</i>	\$30.4	\$32.0
<i>Local property taxes</i>	12.5	13.5

* For both years, dollars totals reflect estimates as of July 1, 2001.

Sources: California Department of Finance and Legislative Analyst's Office.

K-12 Highlights Education

The 2001-02 budget increases funds for several K-12 programs, and creates some new ones, including the following:

- ◆ ***Low-Performing Schools Initiative (\$200 Million)***. This new program focuses resources on schools in the lowest 20 percent of the academic performance index. The details of this program are to be finalized in pending legislation.
- ◆ ***Special Education Settlement (\$125 Million)***. The provision is part of a settlement of school district claims for the cost of certain special education programs. The settlement also provides a \$270 million one-

time payment to school districts, primarily in compensation for prior-year costs.

- ◆ ***Child Care Increases (\$109 Million—Ongoing).*** The budget funds the Governor's proposal for an ongoing increase of \$109 million for child care and development programs. This increase consisted of \$67 million to cover the expansion of child care and state preschool programs begun in January 2001 and \$42 million for children of CalWORKS clients.
- ◆ ***Revenue Limit Equalization (\$40 Million).*** AB 441 (Simitian) authorizes the budget to allocate \$40 million as a partial payment toward equalizing school districts' revenue limit funding. The legislation also states legislative intent that by 2006-07 no school district's base revenue limit be below the 90th percentile amount (as calculated for 2001-02) for the appropriate school district size and type. Once this goal is reached, at least 90 percent of the average daily attendance (ADA) in the state would receive specified minimum revenue limit amounts, with the remaining ADA receiving higher amounts based on historical factors. It is estimated that \$400 million would be needed to achieve full equalization.
- ◆ ***Before/After School Programs (\$30 Million).*** The budget provides \$30 million for the existing After School Learning and Safe Neighborhoods Partnership Program to provide grant funding for establishing before-school programs and expanding after-school programs, bringing annual state funding for this grant program to almost \$118 million.

In addition, the 2001-02 State budget for K-12 education includes \$250 million of one-time General Fund monies to help school districts defray increased energy costs and to fund energy conservation measures. The budget also allocates \$702 million from the Proposition 98 "Reversion" account monies for various purposes. These one-time funds are unspent balances from prior years' Proposition 98 appropriations that must be spent on K-12 education or the community colleges.

Higher Education

For California higher education, the 2001-02 State budget includes nearly \$11 billion in combined State General Funds and local property tax revenues. The budget provides full funding for projected enrollment growth and funds base funding increases for various programs. For the eighth year in a row the budget contains no increase in resident undergraduate student fees at California Community Colleges, the California State University, and the University of California. The budget also fully funds anticipated program requirements for the Cal Grant student financial aid program.

As noted earlier, the Governor vetoed \$554 million in combined funds from the 2001-02 budget. These vetoes included \$161 million in combined funds from the higher education budgets: \$126.6 million from the California Community Colleges; \$5.9 million from the California State University; \$25.5 million from the University of California.

State General Fund and local property tax revenues for California higher education in 2001-02, along with dollar and percent changes from 2000-01, are summarized in Display 4 below. As the display shows, the budget includes an increase of \$589 million (5.5 percent) in State General Funds and local revenues for higher education in 2001-02 over 2000-01 levels.

DISPLAY 4 General Fund and Local Property Tax Revenues for Higher Education (dollars in millions)

	2001-02	Change From 2000-01	
		\$ increase	% increase
University of California	\$3,358.0	\$153.0	4.8%
California State University	\$2,622.4	\$157.6	6.4%
California Community Colleges ¹			
General Fund	\$2,670.1	\$3.8	0.1%
Property taxes	<u>1,830.5</u>	<u>136.0</u>	<u>8.0%</u>
Totals, Community Colleges	\$4,326.3	\$139.8	3.2%
Student Aid Commission	\$634.6	\$137.9	27.5%
Hastings College of the Law	\$15.1	\$0.8	5.4%
California Postsecondary Education Commission	<u>\$3.9</u>	<u>-\$ 0.1</u>	<u>- 2.6%</u>
Totals, Higher Education	\$10,960.3	\$589.0	5.5%

1. Community colleges funding totals do not include one-time" funds allocated in the system's "Proposition 98 Reversion Account."

Source: Office of the Legislative Analyst.

Below are brief summaries of the 2001-02 State budget highlights for California Community Colleges, the California State University, the University of California, and the California Student Aid Commission.

The California Community Colleges

The 2001-02 State Budget provides more than \$4.3 billion to the California Community Colleges, an increase of \$140 million (3.2 percent) in State General Funds and property tax revenues above 2000-01 levels. There is some administrative dispute over the exact funding amounts for the community colleges due to differences in the accounting of one-time

funds. Major budget augmentations for the California Community Colleges include:

- ◆ \$114 million to fund a 3 percent increase in enrollment growth of approximately 30,800 additional full-time equivalent students.
- ◆ \$150 million for a 3.87 percent COLA in apportionment and categorical funding.
- ◆ \$57 million to increase part-time faculty salaries to make them more comparable to full-time salaries for similar work and \$4.7 million for part-time faculty office hours.
- ◆ \$141 million from general obligation bonds for 77 capital outlay construction projects.

The California State University

The State University General Fund budget for 2001-02 is more than \$2.6 billion, an increase of \$158 million (6.4 percent) above 2000-01. Combined general purpose funds for the CSU budget increase by \$221 million over the prior year (8.2 percent), to bring the total CSU base state budget to \$3.4 billion. The budget includes the following augmentations:

- ◆ \$62.3 million (\$56 in General Funds) to fund an additional 8,760 full-time equivalent students, a growth of 3 percent.
- ◆ \$47 million for a 2 percent increase in base support for cost increases in items such as including employee compensation increases and the effects of price inflation.
- ◆ \$34 million (\$15.5 million ongoing) to help pay for increased natural gas costs on various campuses.
- ◆ \$17 million in lieu of increasing resident undergraduate student fees.
- ◆ \$16 million (\$12 million in General Funds) is provided for 3,138 full-time equivalent students attending this summer \$56 million as part of year-round operations.
- ◆ \$2 million for various research initiatives including: \$1 million for the Agricultural Research Initiative, a collaborative partnership that supports applied agricultural and natural resources research, \$500,000 for marine studies in collaboration with a federal research initiative to increase CSU applied research activities in this field, and \$650,000 to initiate a Central Valley Economic Incubator at CSU Fresno to serve high technology firms with engineering and computer science needs.
- ◆ \$225 million from general obligation bonds for 28 capital outlay construction projects at 20 campuses.

The University of California

The budget provides more than \$3.2 billion in General Fund support for the University, \$152 million (4.7 percent) above 2000-01. Major University budget augmentations and new programs include:

- ◆ \$76 million (\$20 million ongoing) to help pay for increased natural gas costs on various campuses.
- ◆ \$100 million for four California Institutes for Science and Innovation that will conduct research in cutting-edge scientific fields. \$75 million as the second installment of funding of the first 3 institutes and \$25 million as the first installment of funding for a fourth institute.
- ◆ \$60 million for a 2 percent increase in base support for cost increases in items such as including employee compensation increases and the effects of price inflation.
- ◆ \$65 million to fund 4.1 percent growth in enrollment, which funds an additional 7,100 FTE Students
- ◆ \$22 million in lieu of increasing resident undergraduate student fees.
- ◆ \$21 million for additional support for the summer term.
- ◆ \$100 million in General Funds, \$207 million from general obligation bonds, and \$225 million from lease-payment bonds for 43 capital outlay construction projects.
- ◆ The above funds include more than \$162 million in new money for UC Merced. This includes \$20 million in start-up funds for the fourth California Institutes for Science and Innovation.

Of intersegmental importance is the \$33 million provided to implement year-round education at the State University (\$12.4 million) and University of California (\$20.7 million) campuses. These funds will provide state-support for existing summer enrollment at four State University campuses and three University of California and campuses that have either exceeded or are near capacity. The campuses being converted to year-round instruction during the budget year are: CSU Fullerton, CSU Long Beach, CSU San Francisco, CSU San Diego, UC Berkeley, UC Los Angeles, and UC Santa Barbara.

The California Student Aid Commission

The 2001-02 budget appropriates a total of \$635 million from the State General Fund for the California Student Aid Commission. This is \$138 million (27.5 percent) above expenditures in the prior year. The increase provides \$93 million for expanding the number of Cal Grant awards available in the financial aid entitlement and competitive grant programs. The budget also provides \$118 million for the Governor's Scholarship Programs. This program offers \$1,000 and \$2,500 scholarships to high-achieving high school students throughout California.

Next are discussed the non-education priorities funded in the budget: tax and fee relief, health, and transportation

*Non-education
budget priorities*

Tax Relief — The 2001-02 budget includes a total of \$121 million in tax relief measures for 2001-02 (not including the “Sales tax trigger” measure) and another \$136 million in tax reductions that will take effect in 2002-03. Major tax reductions include:

- ◆ Changing the “Sales tax trigger” by revising the formula that provides for a one-quarter cent sales tax rate reduction, to make the lowered rate easier to achieve each year. The budget reserve level required to trigger the reduction was reduced from 4 percent to 3 percent of estimated current year revenues. A new requirement was added that actual General Fund revenues for May through September are at least equal to those projected in the Governor’s May Revision. It is estimated that this change will cause a half-year loss in tax revenues of \$550 million in 2001-02.
- ◆ Increase in assistance payments for low-income senior citizens and disabled individuals, at a cost of \$75 million in 2001-02.
- ◆ Sales tax exemption for liquefied petroleum gas used in rural residences and for agricultural, representing a revenue loss of \$11 million in 2001-02.
- ◆ State sales tax exemption for farm and forestry equipment and diesel fuel used to produce and harvest agricultural products, representing a revenue loss of \$39 million in 2001-02.

Health — The final budget uses the State’s “Tobacco Settlement Funds” to expand health insurance coverage under the Healthy Families Program. Insurance coverage is increased for treatment of breast, cervical, and prostate cancer. The budget includes a lump-sum payment of \$191 million to resolve a lawsuit relating to reimbursement rates for hospital outpatient services, and includes funding to increase payment rates for long-term care nursing facilities.

Transportation — The budget provides \$7.5 billion from state special funds and federal funds for Caltrans; this is reduction of 22 percent from last year’s spending levels. This represents more a delay than a reduction, as the budget refinances the State’s “Traffic Congestion Relief Program.” It defers for two years the transfer of gasoline sales tax revenues from the General Fund to transportation purposes. The two-year deferral will make \$2.3 billion in additional funds available to the General Fund over this time. The transportation budget includes: \$3 billion for capital outlay, \$1 billion for highway construction, \$1.5 billion for local assistance, \$794 million for highway maintenance, \$461 million for mass transit, and \$742 million for various administrative functions.

The major change adopted in transportation funding is the budget agreement between the Administration and the Legislature to place Assembly Constitutional Amendment 4 (Dutra) on the statewide ballot in 2002. This initiative would permanently dedicate the sales tax on motor vehicle fuel to transportation purposes beginning in 2003-04. If approved by the voters, it is estimated that by fiscal year 2008-09 this change will increase transportation funding by \$1.5 billion each year.

Summary While the California 2001-02 Budget is the largest in the State's history, it also begins the process of limiting State expenditures. Many new Administrative and Legislatively-proposed initiatives were scaled back in the final budget and some were eliminated entirely. State revenues were running lower in July than was anticipated in the Governor's May Revision of the budget and most economic forecasts are predicting very little – if any – increases in government revenues over the near term. For higher education and other discretionary programs in the State budget, this trend could portend actual funding reductions in the fiscal year 2002-03 budget.
